INDIANA DEVELOPMENT FINANCE AUTHORITY

FINANCIAL STATEMENTS

June 30, 2005

INDIANA DEVELOPMENT FINANCE AUTHORITY
Indianapolis, Indiana

FINANCIAL STATEMENTS
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CONTENTS

Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Indiana Development Finance Authority
State of Indiana

We have audited the governmental fund balance sheet / statement of net assets of Indiana Development Finance Authority (Authority), as of June 30, 2005, and the related statement of governmental fund revenues, expenses and changes in fund balances / statement of activities for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2005, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2005, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority, taken as a whole. The accompanying Management's Discussion and Analysis and other required supplementary information on pages 3 through 5 and 28 are not a required part of the basic financial statements, but they are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The supplementary schedules of special revenue fund balance sheets and special revenue fund revenues, expenses, and changes in fund balances are presented for purposes of additional analysis. They are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Indianapolis, Indiana
August 5, 2005

This section of the Indiana Development Finance Authority (the "Authority") financial report provides a discussion and analysis of the financial performance during the year ended June 30, 2005. Please read it in conjunction with the Report of Independent Auditors at the front of this report and the financial statements, which immediately follow this section.

Financial Highlights

The Authority's total net assets increased by $2,938,865 or 6%, for the year ended June 30, 2005. This increase is attributable to increases in investments and loans receivable.

In the year ended June 30, 2005, the Authority recognized an approximate 55% decrease in revenue and a 64% decrease in expenses from the previous year. These decreases are attributable to the transfer of responsibility for 21st Century grant disbursements from the Indiana Development Finance Authority to the Indiana State Budget Agency during fiscal year 2004/2005.

As a result of the bankruptcy of Qualitech and Heartland Steel (described in Note 7), the Authority continues to work with the State to see that debt service on the related bonds is paid on time.

In the year ended June 30, 2004, the Authority was designated as the fund manager for the Brownfields Cleanup Revolving Loan Fund ("BCRLF"). The Authority has included these funds in the financial statements as a liability in the amount of $789,274 at June 30, 2005. This liability offsets the funds that have been included in the invested assets and loans of the Authority.

On May 15, 2005, the Indiana Development Finance Authority became the Indiana Finance Authority. Combined into the new Indiana Finance Authority are the Indiana State Office Building Commission, the Indiana Recreational Development Council, the Indiana State Revolving Fund Programs, the Indiana Transportation Finance Authority, and the Indiana Development Finance Authority. Each entity will have an independent audit as of June 30, 2005, but thereafter will be covered under the Indiana Finance Authority audit.

Overview of the Financial Statements

By law, the public purposes of the Authority are to:

- Promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations;
- Promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects;

- Promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises;
- Prevent and remediate environmental pollution by the promotion and development of industrial development projects; and
- Promote affordable childcare financing.

The Governmental Fund Balance Sheet / Statement of Net Assets is the first financial statement included in this report. It represents the financial condition of the Indiana Development Finance Authority on the last day of the reporting year. The Statements of Governmental Funds Revenues, Expenses and Changes Fund Balances / Statement of Activities, reflects the activities of the Indiana Development Finance Authority from the first day of the reporting year through the last. This statement reflects what revenues were generated through the year and what expenses were required to generate those revenues.

The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Indiana Development Finance Authority

Net Assets

The net assets of the Indiana Development Finance Authority were $52,497,345 at June 30, 2005, which represents a 6% increase from the prior year. Total assets increased by $2,632,350, while total liabilities decreased by $306,515.

	2005	2004
Assets	$ 53,473,103	$ 50,840,753
Liabilities	975,758	1,282,273
Net Assets	$ 52,497,345	$ 49,558,480

Change in Net Assets

The increase in net assets was $2,938,865 for the year ended June 30, 2005 as compared to a decrease of net assets of $1,074,283 for the prior year. Revenue decreased by $12,562,316, which represents a 55% change from the prior year. Expenses decreased by $12,807,901, which represents a 64% change from the prior year.

	2005	2004
Revenues	$ 10,283,804	$ 22,846,120
Expenses	7,355,209	20,163,110
Transfer funds to State Budget Agency	-	3,757,293
Change in net assets	$ 2,938,865	$ (1,074,283)

There are four primary reasons for changes from the prior year to the current year:

- The responsibility for the Indiana 21st Century Research and Technology Fund Program grant disbursements was transferred to the State Budget Agency. In 2004, the 21st Century fund had revenues of $14,422,000 and expenses of $14,988,000.
- Loans receivable increased $1,700,000 due to an increase in Brownfield loans totaling $535,000 and a Business Development loan totaling $1,400,000, see Notes 8 and 9.
- Investments increased $1,400,000 due to higher earnings and unused appropriations.
- The allowance for guaranty claims decreased $300,000, see Note 6.

Analysis of Infrastructure Assets

The Authority does not own infrastructure assets.

Capital and Debt Administration

The Authority does not own assets that meet the capitalization requirements and is not legally obligated to pay any outstanding short term or long-term debt at June 30, 2005; however (see Note 7).

Economic Factors

A majority of the Authority's funding comes from State of Indiana appropriations to perform and administer State-authorized programs. Appropriations are made on a biennial basis. Other funding includes fees received in connection with program administration and management, as well as investment earnings.

INDIANA DEVELOPMENT FINANCE AUTHORITY
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Fund Types				
	General Fund	Special Revenue Funds	Total	Adjustments (Note 1)	Statement of Net Assets
Assets					
Current assets					
Cash and cash equivalents (Note 2)	$ 203,668	$ 493,312	$ 696,980	$ -	$ 696,980
Prepaid expenses	9,779	-	9,779	-	9,779
Investments (Note 2)	1,750,259	43,311,315	45,061,574	-	45,061,574
Accrued interest receivable	3,842	354,236	358,078	-	358,078
Accounts receivable	114,119	-	114,119	-	114,119
Loans receivable, net (Notes 1, 5, 8 and 9)	-	7,232,573	7,232,573	-	7,232,573
Interfund loan receivable (Note 4)	111,793	96,478	208,271	(208,271)	-
Total current assets	$ 2,193,460	$ 51,487,914	$ 53,681,374	$ (208,271)	$ 53,473,103
Liabilities					
Current liabilities					
Accounts payable and accrued expenses	$ 11,484	$ -	$ 11,484	$ -	$ 11,484
Interfund loan payable (Note 4)	-	208,271	208,271	(208,271)	-
Allowance for guaranty claims (Note 6)	-	175,000	175,000	-	175,000
Funds held for other agency	-	789,274	789,274	-	789,274
Total current liabilities	11,484	1,172,545	1,184,029	(208,271)	975,758
Fund balances/Net assets					
Fund balances:					
Reserved (Note 11)	-	5,506,570	5,506,570		
Unreserved	2,181,976	44,808,799	46,990,775		
Total fund balance	2,181,976	50,315,369	52,497,345		
Total liabilities and fund balances	$ 2,193,460	$ 51,487,914	$ 53,681,374		
Net assets:					
Unrestricted					$ 52,497,345

See accompanying notes to financial statements.

INDIANA DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENSES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
Year ended June 30, 2005

	General	Special Revenue	Total	Adjustments (Note 1)	Statement of Activities
Government activity revenues					
State appropriations	$ -	$ 8,060,017	$ 8,060,017	$ -	$ 8,060,017
Other state funding	-	512,519	512,519	-	512,519
Investment earnings	31,174	1,518,837	1,550,011	-	1,550,011
Realized and unrealized gains on investments	-	(216,838)	(216,838)	-	(216,838)
Financing fees and premiums (Note 12)	170,040	5,626	175,665	-	175,665
Rental income (Note 13)	31,278	-	31,278	-	31,278
Decrease in allowance for guaranty claims (Note 6)	-	171,151	171,151	-	171,151
Total revenues	232,492	10,051,312	10,283,804	-	10,283,804
Government activity expenses					
Salary and benefits	486,311	245,695	732,006	-	732,006
Professional services	52,913	34,034	86,947	-	86,947
Administrative expenses	100,260	565,211	665,471	-	665,471
Office Rent	102,573	13,694	116,267	-	116,267
Bank and trustee fees	3,149	70,871	74,020	-	74,020
Provision for loan forgiveness (Notes 8 and 9)	-	750,000	750,000	-	750,000
Reimbursement agreement loss (Note 7)	-	3,118,083	3,118,083	-	3,118,083
Grant awards	-	1,350,035	1,350,035	-	1,350,035
CAP claims (Note 3)	-	452,110	452,110	-	452,110
Total expenses	745,206	6,599,733	7,344,939	-	7,344,939
Excess (deficiency) of revenues over expenses	(512,714)	3,451,579	2,938,865	-	2,938,865
Other financing sources (uses)					
Transfers – external activities	-	-	-	-	-
Transfers – internal activities	749,212	(749,212)	-	-	-
Excess of revenues and sources over expenses and uses	236,498	2,702,367	2,938,865	-	2,938,865
Fund balances/net assets:					
Beginning of year	1,945,478	47,613,002	49,558,480	-	49,558,480
End of year	$ 2,181,976	$ 50,315,369	$ 52,497,345	$ -	$ 52,497,345

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Indiana Development Finance Authority (the Authority) was established by the Indiana General Assembly, in 1990, as a body, both corporate and politic, to independently exercise essential public functions. The public purposes of the Authority are to:

- Promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations

- Promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects

- Promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises

- Prevent and remediate environmental pollution by the promotion and development of industrial development projects; and

- Promote affordable childcare financing.

The accompanying financial statements report only on the financial activities associated with the Authority, which is a component unit of the State of Indiana. The financial statements do not represent a comprehensive annual financial report of the State of Indiana.

Government-wide and Fund Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority only uses governmental funds. Government funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

Reconciliation of Governmental Fund Balance Sheet / Statement of Net Assets: In addition to elimination of interfund balances, the following items reflect adjustments to fund balances to derive net asset balances:

Governmental funds balance	$ 52,497,345
Eliminate interfund loan receivable	(208,271)
Eliminate interfund loan payable	208,271
Net Assets	$ 52,497,345

Fund Accounting: The accounts of the Authority are organized based on funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, expenditures, and operating transfers, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type for financial reporting purposes as governmental funds as follows:

General Fund: The General Fund is used to account for all activities of the Authority not required to be accounted for in another fund. Examples of activities accounted for in the General Fund include the State Private Activity Bond Ceiling Program, various bond issue and refunding programs, and operational budgets.

Special Revenue Funds: Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for a specified purpose. The Authority's Special Revenue Funds include the following:

The **Capital Access Program (CAP) Fund** enables banks to make loans to Indiana businesses that may not meet traditional lending requirements. The foundation of CAP is the establishment of a reserve fund into which the borrower, bank, and the Authority contribute. When a CAP loan is made, the borrower and the bank each deposit a small percentage of the loan (1.5% - 3.5%) into the bank's reserve fund, and the Authority matches the combined payment.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The reserve fund is available for the bank to use to cover any losses of any loans made by it under the CAP program. Claims expense recognized by the Authority during the year totaled $452,110.

The **Industrial Development Project Guaranty Fund (Guaranty Fund)** provides flexible loan guaranties to banks for various economic development projects. Indiana businesses that are unable to qualify for conventional financing can utilize the Authority's loan guaranty programs for high tech, industrial, rural and agriculture development projects. The loan guaranty program offers guaranties on the principal deficiency on a loan, with a maximum guaranty amount not exceeding $2,000,000 for industrial development projects. At June 30, 2005, the Authority had outstanding guaranties aggregating $44,876 and no outstanding guaranty commitments; however see Notes 5 and 7.

The **Business Development Loan Fund** is used for activities relating to the Business Development Loan Program. The primary purpose of the Business Development Loan Fund is to grant loans to qualified borrowers so that they may carry out an industrial development project consistent with the requirements of the related statute (4-4-11-16.5). As of June 30, 2005, there was an outstanding loan commitment of $3,000,000; however, see Notes 9 and 11.

The **Rural and Agricultural Development Fund** is used for activities relating to the Rural and Agricultural Program. The Fund's primary purpose is to create or retain employment within the State of Indiana to benefit any agriculture enterprise or rural development project. The loan guaranty program offers guaranties on the principal deficiency on a loan, with a maximum guaranty amount not exceeding $300,000 for rural and agriculture projects. At June 30, 2005, the Authority had outstanding guaranties aggregating $274,920 and no outstanding loan commitments.

The **Environmental Remediation Revolving Loan Fund (Brownfields Fund)** was created in 1997 by the General Assembly to facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues. The Authority administers the State's Brownfield Grant and Loan Program. There was $74,608 in grant commitments and $1,000,000 in outstanding loan commitments at June 30, 2005.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The **Indiana 21st Century Research and Technology Fund** was established by the State in 1999 to support the expansion of the high technology sector of Indiana's economy, with the expectation of creating significant economic impact and job growth. The Fund provides grant awards to Indiana businesses, institutions of higher educations and other organizations to compete for research and development funding; to stimulate the transfer of research and technology into marketable products; and, diversify Indiana's economy through effective public/private partnerships. The State Budget Agency and the Fund's Board review grant submissions recommended by peer review panels and approve grant disbursements under the program. All grant awards were paid directly from the State Budget Agency. The Authority only provided administrative support for this program in the year ended June 30, 2005.

The **Petroleum Remediation Grant Incentive Fund** is a component of the Environmental Remediation Revolving Loan Fund that provides assistance to cities, towns, and counties in Indiana to complete remediation of petroleum contamination at Brownfield sites. The Authority administers the program in conjunction with technical staff of the Indiana Department of Environmental Management ("IDEM"). There was $673,897 in grant commitments outstanding at June 30, 2005.

The **Brownfields Cleanup Revolving Loan Fund** is a grant fund controlled by the Indiana Department of Environmental Management ("IDEM"), which was capitalized by an award from the United States Environmental Protection Agency ("EPA"). The purpose of the Fund is to establish a revolving loan within the grantee's organization, under a Cooperative Agreement with the EPA. The Fund is used solely to finance remediation activities at eligible Brownfield sites. Pursuant to a Memorandum of Understanding with IDEM, the Authority serves as the Fund Manager for this program. The Authority has reported $123,304 of invested assets and $665,970 in loans and a corresponding liability in the financial statements in the amount of $789,274 at June 30, 2005.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include allowances for loans, guaranty and CAP claims and related commitments.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Classification: Expenses have been classified using functional and activity classifications using direct costs and estimated indirect cost allocations based upon time allocation and benefit.

Fund Balances: The Authority has reserved fund equity in special revenue funds for specific purposes as stated in appropriations from the General Assembly or as designated by the Authority's governing body.

Appropriations from the State of Indiana: Appropriations are made by the General Assembly on a biennial basis. The Authority records revenues as payments are received.

Investments: Marketable securities and other investments are carried at fair value. Realized and unrealized gains and losses are included in the statements of activities.

Investment Valuation: Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date, are valued at the last reported bid price.

Loans Receivable: Loans are carried at the principal amount outstanding. Interest income is accrued on the principal balances of loans. The Authority's sources of funding for loans are from state appropriations and grants.

Allowance for Loans: Since there are a small number of significant loans outstanding, the allowance for loan loss is estimated by identifying specific troubled loans. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

Management believes that as of June 30, 2005, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the areas that funds are loaned would increase the likelihood of additional losses as a result of credit and market risks and could create the need for additional loss allowance.

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave, which has been earned but not paid, has been accrued in the accompanying financial statements. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or vest.

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NOTE 2 - DEPOSITS AND INVESTMENTS

Cash

The Authority maintains demand deposit accounts for each fund. The carrying amount of cash was $696,980 at June 30, 2005, while the bank balances were $772,886. All account balances at the bank were insured by the Federal Deposit Insurance Corporation (FDIC) for $100,000.

Investments

The Authority maintains trust accounts for each fund. Indiana statute authorized the Authority to invest obligations of the United States Treasury and U.S. agencies, repurchase agreements and other approved investment vehicles. Repurchase agreements are required to be fully collateralized by interest bearing obligations, as determined by the current market value computed on the day the agreement is effective.

The following schedule reports the fair values and maturities for the Authority's investments at June 30, 2005.

		Investment Maturities			
Investment Type	Fair Value	Less than One Year	One to Five Years	Six to Ten years	Greater than Ten Years
Money Market Investments	$ 6,348,060	$ 6,348,060	$ -	$ -	$ -
U.S. Agency Bonds	34,166,585	8,508,906	22,848,737	1,792,742	1,016,200
Government Backed Securities	4,445,129	-	4,445,129	-	-
Preferred Stock	101,800	-	-	-	101,800
Total	$ 45,061,574	$ 14,856,966	$ 27,293,866	$ 1,792,742	$ 1,118,000

Interest Rate Risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. To the extent possible, investments will be matched with anticipated cash flow requirements.

(Continued)

Credit ratings for the Authority's investments at June 30, 2005 (excluding investments in U.S. Treasuries which are not considered to have credit risk) are as follows:

Investment Type	S & P	Fitch	Moody's	Fair Value
Money Market Investments	unrated	unrated	unrated	$ 6,348,060
U.S. Agency Bonds	AAA	AAA	Aaa	18,418,078
	AAA	AA-	Aa2	1,021,880
	AAA	unrated	Aaa	3,573,323
	unrated	AAA	Aaa	10,083,845
	unrated	unrated	Aaa	859,676
	unrated	unrated	unrated	209,783
Government Backed Securities	unrated	unrated	unrated	4,445,129
Preferred Stock	AAA	unrated	Aaa	101,800
				$ 45,061,574

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5 percent of the Authority's investments are in Fannie Mae and FreddieMac. These investments are 48.9% and 14.4%, respectively, of the Authority's total investments.

NOTE 3 - CAPITAL ACCESS PROGRAM (CAP) CASH

At June 30, 2005, the valuation of the Authority's share of CAP cash account balances held in participating banks in the Authority's name was $0. The aggregate CAP Cash balance includes the Authority's matching payments on the aggregate of the borrowers' and banks' payments of $3,059,386 offset by $5,070,555 recorded as aggregate borrower and lender contributions to the CAP program. Because aggregate borrower and lender contributions to the CAP program exceed the balance in the CAP cash accounts, there is no asset reported by the Authority as of June 30, 2005. All CAP cash accounts held by participating banks are pledged as security on CAP loans outstanding of approximately $39,799,919 at June 30, 2005. Since inception of the program, CAP has originated approximately $150,231,907 of loans.

(Continued)

NOTE 4 - INTERFUND LOANS RECEIVABLE AND PAYABLE

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. To the extent that certain transactions between funds have not been paid or received, net interfund receivable and payable balances have been recorded at June 30, 2005, as follows:

	Interfund Receivable	Interfund Payable
General Fund	$ 111,793	$ -
Indiana 21st Century Research and Technology Fund	-	208,271
Environmental Remediation Revolving Loan Fund	89,343	-
Petroleum Remediation Grant Fund	7,135	-
	$ 208,271	$ 208,271

NOTE 5 - LOANS RECEIVABLE – GUARANTY FUND

Loans receivable under the Guaranty Fund were comprised of the following at June 30, 2005:

In June 1997, the Authority advanced $450,000 under a promissory note to a company within Indiana. The note was payable in monthly installments of $5,225, including interest at 7%, from June 1997 to July 2007. The note was secured by substantially all property, equipment, and inventory of the borrower. This note was paid off in September 2004.	$ -
In June 1997, the Authority advanced $1,000,000 under a promissory note to a company within Indiana for equipment purchases and permanent working capital. The note was payable in monthly installments of $12,485, including interest at 7%, from June 1997 to August 2007. In the prior year, the Authority received a lump sum payment of $385,940 and fully reserved the remaining balance. The remaining $290,000 balance was forgiven in September 2004.	-
	$ -

Interest earned on these loans during the year ended June 30, 2005 was $3,480.

(Continued)

NOTE 6 - ALLOWANCE FOR CLAIMS - GUARANTY FUND

The Guaranty Fund was established by the Indiana General Assembly primarily for the purpose of guaranteeing various percentages of loans, bonds, letters of credit, and equipment leases used by qualified lenders. Periodically, the Indiana General Assembly appropriates funds to the Guaranty Fund. Available funds may be increased or decreased by the income and expenses attributable to the Authority's Guaranty Program, including payments required upon guaranteed loan defaults.

Guaranties are not backed by the full faith and credit of the State of Indiana. Payments of guaranty claims can be made only from the Guaranty Fund. Currently, for the Guaranty Program, the Authority is authorized to extend guaranties aggregating eight times the amount of the Guaranty Fund balance. At June 30, 2005, the Authority had outstanding loan guaranties aggregating $319,796 and no outstanding loan guaranty commitments.

The Authority has also entered into certain agreements, which include a requirement that under certain circumstances the Authority either use existing guaranty funds or seek appropriations from the Indiana General Assembly; see projects described in Notes 5 and 7.

The Allowance for Guaranty Claims of $175,000 is recorded in the Special Revenue Fund (Guaranty Fund) and represents amounts that management estimates to be adequate to provide for future claims resulting from borrower defaults on loans, bonds or equipment leases guaranteed by the Authority pursuant to its Guaranty Program. In arriving at a judgment about the adequacy of the allowances, consideration has been given to problem guaranties, historical losses, economic conditions, and other factors affecting the outstanding guaranties.

(Continued)

NOTE 7 - REIMBURSEMENT AGREEMENT LOSS – GUARANTY FUND

Qualitech Steel – The Authority is a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation ("Qualitech"), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA ("Bank"), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) ("Bonds").

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. Such letter of credit replaced a letter of credit issued by another bank upon original issuance of the Bonds. As a result of Qualitech's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, $23,600,000 as of June 30, 2005. Current debt service reserve funds of $3,624,000 would be available to reduce the contingent obligation.

For FY 2005 and FY 2006, the Indiana General Assembly appropriated sufficient funds to the State Budget Agency for transfer to the Authority to pay Qualitech bond and related payments during those fiscal years. During the fiscal year ending June 30, 2005, the Authority recorded expenses for such bond and related payments of $2,219,929. For the FY 2007 and FY 2008 budget period, it is anticipated that the General Assembly will appropriate sufficient funds to the State Budget Agency for transfer to the Authority for Qualitech bond and related payments, negating the need to access other Authority funds in either fiscal year.

Heartland Steel - The Authority is a party to an Amended and Restated Reimbursement Agreement with Heartland Steel, Inc. ("Heartland"), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA ("Bank"), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) ("Bonds").

(Continued)

NOTE 7 - REIMBURSEMENT AGREEMENT LOSS – GUARANTY FUND (Continued)

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. As a result of Heartland's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding. If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, $10,300,000, as of June 30, 2005. Current debt service reserve funds of $2,241,750 would be available to reduce the contingent obligation.

For FY 2005 and FY 2006, the General Assembly appropriated sufficient Guaranty funds to pay Heartland bond and related payments during those fiscal years. During the fiscal year ending June 30, 2005, the Authority recorded expenses for bond and related payments of $898,154. For the FY 2007 and FY 2008 budget period, it is anticipated that the General Assembly will appropriate sufficient funds to the State Budget Agency for transfer to the Authority for Heartland bond and related payments, negating the need to access other Authority funds in either fiscal year.

(Continued)

NOTE 8 - LOANS RECEIVABLE – ENVIRONMENTAL REMEDIATION REVOLVING LOAN FUND (BROWNFIELDS)

Loans receivable were comprised of the following at June 30, 2005:

City of Fort Wayne	$ 177,172
Town of Pierceton	32,114
Town of Kewanna	24,320
City of Madison	211,136
Hendricks County	694,015
City of Rushville	44,213
City of South Bend	1,172,390
City of Mishawaka	838,000
City of New Albany	229,941
City of Indianapolis – BDG	161,141
City of Indianapolis – Titan	53,643
City of Tell City	779,639
City of Warsaw	132,825
City of Michigan City	265,008
City of Elkhart	355,000
City of Wabash	500,000
City of South Bend – Ireland Road	750,000
	6,420,558
Less allowance for forgivable portion of Brownfield loans	1,258,503
	$ 5,162,055

The Brownfield program includes a partially forgivable loan program with certain eligibility requirements. Eligible participants have a provision for forgiveness of up to 20% of the original loan balance if certain performance criteria are met. The Authority has recorded an allowance of $1,258,503, which represents the current amount available for forgiveness on loans that qualified under the program.

Interest earned on these loans during the year ended June 30, 2005 was $149,274.

(Continued)

NOTE 9 - LOANS RECEIVABLE – BUSINESS DEVELOPMENT LOAN FUND

Loans receivables under the Business Development Loan Fund were comprised of the following at June 30, 2005:

In July 2000, the Authority advanced $1,500,000 under a promissory note to Steel Dynamics, Inc. ("SDI"). The Indiana Department of Commerce funded $1,000,000 of the advance through an appropriation to the Authority. A provision of the note allowed $1,000,000 to be forgiven if certain performance criteria were met. Achievement of performance criteria was measured annually on or before December 31st. The note was secured by certain assets of the borrower. The Authority had recorded an allowance of $1,000,000 for the full amount available for forgiveness on the loan as of June 30, 2004. In the current year, the borrower met the certain performance criteria and the $1,000,000 was forgiven.	$ -
In July 2001, the Authority advanced $1,000,000 under a promissory note to Midwest Independent Transmission System Operator, Inc. ("MISO"). A provision of the note allowed $500,000 to be forgiven if certain performance criteria were met. Achievement of performance criteria were measured annually on or before December 31st. The Authority had recorded an allowance of $500,000 for the loan provision. The note was secured by certain assets of the borrower. On March 16, 2004, the Authority authorized a new partially forgivable $2,000,000 loan to MISO. In connection with the new loan, the Authority approved to forgive payment of the principal balance of the net loan receivable which was $375,912 plus the $500,000 allowance portion upon execution of the new loan and for meeting certain performance criteria. Forgiveness was recognized on September 7, 2004.	-
On September 7, 2004, the Authority advanced a new partially forgivable $2,000,000 loan under a promissory note to Midwest Independent Transmission System Operator, Inc. ("MISO") in conjunction with a significant economic development and expansion project at MISO's headquarters in Carmel, Indiana. A provision of the note allows $500,000 to be forgiven if certain performance criteria are met. Achievement of performance criteria are measured annually on or before December 31st. The Authority recorded an allowance of $500,000 for the loan. The note is secured by certain assets of the borrower. The Indiana Department of Commerce, now the Indiana Economic Development Corporation, committed to fund $500,000 of this advance	

(Continued)

NOTE 9 - LOANS RECEIVABLE – BUSINESS DEVELOPMENT LOAN FUND (Continued)

through an appropriation to the Authority. The note is payable in quarterly installments of $43,631, including interest at 3%, from January 1, 2005 to October 1, 2014.	1,904,548
Less allowance for forgivable portion of loans	(500,000)
	$ 1,404,548

The Authority has recorded an allowance of $500,000, which represents the current amount available for forgiveness on loans that qualified but have not met the performance criteria under the program. Interest earned on these loans during the year ended June 30, 2005 was $32,698.

Effective October 3, 2004, the Authority made a commitment to loan up to $3,000,000 from the Business Development Loan Fund to Indiana Seed Fund I, LLC, to permit the borrower to fund seed capital equity investments in early stage companies headquartered in Indiana. Indiana Seed Fund I is to be managed by BC Advisors, LLC, or another affiliate of BC Initiatives, Inc. The loan draws interest at 1%, but under loan documents, the Authority will be entitled to receive additional consideration under certain circumstances. The loan draws mature October 13, 2019. As of June 30, 2005, no draws have been made by the borrower.

NOTE 10 - OTHER CONDUIT DEBT OBLIGATIONS

The Authority is authorized by law to issue conduit and certain other types of revenue bonds to finance projects that serve Indiana public purposes outlined by statute. Except as described in Note 7, the Authority's revenue bonds are payable solely from revenues of the Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Authority or the State of Indiana, nor are they payable in any manner from revenues raised by taxation. The Authority has no power to levy taxes. Pursuant to this authority, the Authority has issued numerous revenue bonds.

(Continued)

NOTE 11 - RESERVED FUND EQUITY

The Authority has reserved fund equity in five special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by the Authority's governing body:

The Guaranty Fund has a reserve of $758,065 to pay amounts due under the reimbursement agreements described in Note 7.

The Business Development Loan Fund has a reserve of $3,000,000 for a current loan commitment as reserved by the Authority; however, see Note 9.

The Environmental Remediation Revolving Loan Fund has a reserve of $1,074,608 for current grant commitments as reserved by the Authority.

The Petroleum Remediation Grant Fund has a reserve of $673,897 for current grant commitments as reserved by the Authority.

NOTE 12 - FINANCING FEES AND PREMIUMS

The Authority may assess a fee or charge a premium on loan guaranties and bond issuances. The following represent amounts recorded for the year ended June 30, 2005:

Guaranty Fund:	
Guaranty premiums and fees	$ 2,749
Indiana 21st Century Research and Technology Fund:	
Swift Tour fees	$ 2,627
Petroleum Remediation Grant Fund:	
PRGI premiums and fees	$ 250
General Fund:	
Bond registration fees	$ 133,540
Bond application fees	36,500
	$ 175,665

(Continued)

NOTE 13 - RENT COMMITMENTS

The Authority leases office space pursuant to a non-cancelable operating lease expiring in May 2006. The future minimum rental payments required at June 30, 2005 are $94,458.

Rental expense for the operating lease was $116,795 for the year ended June 30, 2005. The Authority subleases space to the Indiana Transportation Finance Authority, the 21st Century Research and Technology Fund, and the Public Finance Office which resulted in rental income of $31,278 for the year ended June 30, 2005. The Indiana 21st Century Research & Technology Fund was allocated $13,694 of the rent expense with the general fund recording the remainder.

NOTE 14 - AGENCY ACCOUNT - MARKET INDIANA

Market Indiana is a public-private partnership designed to support economic development in the State of Indiana. Through Market Indiana, Indiana companies can participate with the Indiana Economic Development Corporation in various marketing programs to promote economic development in Indiana. The Authority performs certain accounting functions for Market Indiana on behalf of the Indiana Economic Development Corporation. The assets, fund balance, and results of operations are not included in the financial statements of the Authority. Summarized financial information as of June 30, 2005 and for the year then ended is as follows:

Total assets	$ 148,660
Fund balance	$ 148,660
Total revenues	$ 149,961
Total expenditures	(164,399)
Excess of revenue over expenditures	$ (14,438)

Effective July 1, 2005, the Authority is no longer responsible for performing accounting functions for Market Indiana. Indiana Economic Development Corporation has taken over this function.

(Continued)

NOTE 15 - SHORT TERM OBLIGATIONS

Accrued expenses are recognized for expenses incurred but not paid at June 30, 2005. The following schedule shows the changes in short term obligations during the year:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Accounts payable and accrued expenses	$ 98,175	$ 6,594,939	$ (6,681,630)	$ 11,484

NOTE 16 - PENSION PLAN

The Authority elected to become a participant in the Public Employers' Retirement Fund (PERF) and began active membership on January 1, 1994. The Authority contributes to PERF, an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana.

All full-time state employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give the Authority the right to participate and contribute to the plan. Employees vest after ten years of service. Employees who have reached fifty years of age may receive retirement benefits with fifteen years of service. An employee may receive benefits at age sixty-five with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. Effective July 1, 1986, legislation permits a PERF employer to make the employee contributions on behalf of the employee. The Authority elected to pay their employees' 3% contribution. The employer rate of contributions was 5.6% through September 30, 2004 and 3.8% from October 1, 2004 through June 30, 2005. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

All assets of the plan are held and invested by PERF. Investments are in obligations of the U.S. Government, federal agencies, corporate bonds, and equity securities.

(Continued)

NOTE 16 - PENSION PLAN (Continued)

There is no (i) pension benefit obligation information, or (ii) assets available for benefits at cost information, or (iii) an analysis of funding disclosed in this report. However, PERF performed an actuarial valuation of Authority's plan as of June 30, 2004 which is included in the Annual Report of the Indiana Public Employees' Retirement Fund for state employees and employees of the various subdivisions of the State of Indiana.

The Authority's contributions to PERF were in accordance with the requirements computed in the actuarial valuation performed June 30, 2004, the last date available. The following shows current year pension plan information relative to contributions:

Year	Employer Contributions	Employee Contributions	Total Contributions	Annual Covered Payroll	Percentage of Employer Contributions to Covered Payroll
2004	$ 24,542	$ 17,152	$ 41,694	$ 571,725	4.3%

Information regarding the PERF pension plan can be obtained by sending inquiries to the following address or by use of their website:

Public Employees' Retirement Fund
Harrison Bldg. Suite 700, 143 W. Market Street
Indianapolis, IN 46204
Phone: 1-888-526-1687
www.in.gov/perf

NOTE 17 – SUBSEQUENT EVENT

The Indiana Finance Authority ("Finance Authority") was reconstituted pursuant to amendments made to Indiana Code 4-4-11 *et seq.*, the WSRF Act, and the DWSRF pursuant to Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 ("PL 235"). Pursuant to PL 235, the Finance Authority became the successor to the State, acting through the State Budget Agency and the Department of Environmental Management, for purposes of holding, administering, managing and financing the Programs and the SRF Funds. In addition, pursuant to PL 235, the Finance Authority also became the successor to the Indiana Bond Bank with respect to outstanding bonds issued by the Indiana Bond Bank related to the Programs. As a result of PL 235, the responsibility for the Programs has been consolidated into one entity, the Finance Authority. The Financial Statements reflect the legal and entity structure as in effect prior to the effective date of PL 235.

SUPPLEMENTARY SCHEDULES

INDIANA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF SPECIAL REVENUE FUND BALANCE SHEETS
June 30, 2005

	Capital Access Program Fund	Guaranty Fund	Business Development Loan Fund	Rural and Agricultural Development Fund	Environmental Remediation Revolving Loan Fund	Indiana 21st Century Research and Technology Fund	Petroleum Remediation Grant Fund	Brownfields Cleanup Revolving Loan Fund	Total
Assets									
Cash and cash equivalents	$ 54,526	$ -	$ -	$ -	$ 396,196	$ 42,590	$ -	$ -	$ 493,312
Investments	6,173,807	7,563,548	5,451,678	1,395,575	13,958,058	-	8,645,521	123,128	43,311,315
Accrued interest receivable	33,030	90,211	25,304	8,702	148,572	14	48,227	176	354,236
Accounts receivable	-	-	-	-	-	-	-	-	-
Loans receivable, net	-	-	1,404,548	-	5,162,055	-	-	665,970	7,232,573
Interfund loan receivable	-	-	-	-	89,343	-	7,135	-	96,478
	$ 6,261,363	$ 7,653,759	$ 6,881,530	$ 1,404,277	$ 19,754,224	$ 42,604	$ 8,700,883	$ 789,274	$ 51,487,914
Liabilities									
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interfund loan payable	-	-	-	-	-	208,271	-	-	208,271
Allowance for guaranty claims	-	175,000	-	-	-	-	-	-	175,000
Funds held for other agency	-	-	-	-	-	-	-	789,274	789,274
Total liabilities	-	175,000	-	-	-	208,271	-	789,274	1,172,545
Fund balances									
Reserved	-	758,065	3,000,000	-	1,074,608	-	673,897	-	5,506,570
Unreserved	6,261,363	6,720,694	3,881,530	1,404,277	18,679,616	(165,667)	8,026,986	-	44,808,799
Total fund equity	6,261,363	7,478,759	6,881,530	1,404,277	19,754,224	(165,667)	8,700,883	-	50,315,369
	$ 6,261,363	$ 7,653,759	$ 6,881,530	$ 1,404,277	$ 19,754,224	$ 42,604	$ 8,700,883	$ 789,274	$ 51,487,914

INDIANA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF SPECIAL REVENUE FUND REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
Year ended June 30, 2005

	Capital Access Program Fund	Guaranty Fund	Business Development Loan Fund	Rural and Agricultural Development Fund	Environmental Remediation Revolving Loan Fund	Indiana 21st Century Research and Technology Fund	Petroleum Remediation Grant Fund	Total
Governmental activity revenues								
State Appropriations	$ 724,998	$ 4,010,019	$ 950,000	$ -	$ 2,375,000	$ -	$ -	$ 8,060,017
Other funding	-	-	-	-	-	512,519	-	512,519
Investments earnings	178,671	308,807	195,498	39,949	565,055	931	229,926	1,518,837
Realized and unrealized gains	(23,535)	(36,678)	(17,845)	1,878	(74,323)	-	(66,335)	(216,838)
Financing fees and premiums	-	2,749	-	-	-	2,627	250	5,626
Decrease in allowance for guaranty claims	-	171,151	-	-	-	-	-	171,151
Total revenues	$ 880,134	$ 4,456,048	$ 1,127,653	$ 41,827	$ 2,865,732	$ 516,077	$ 163,841	$ 10,051,312
Governmental activity expenses								
Salaries and benefits	$ -	$ -	$ -	$ -	$ -	$ 245,695	$ -	$ 245,695
Administrative expenses	-	649	576	-	33,248	564,772	-	599,245
Office rent	-	-	-	-	-	13,694	-	13,694
Bank and trustee fees	9,881	10,923	8,900	2,079	23,676	575	14,837	70,871
Allowance for forgivable loans	-	-	500,000	-	250,000	-	-	750,000
Reimbursement agreement loss	-	3,118,083	-	-	-	-	-	3,118,083
Grant awards (reimbursements)	-	-	-	-	718,874	(13,297)	644,458	1,350,035
CAP claims	452,110	-	-	-	-	-	-	452,110
Total expenses	461,991	3,129,655	509,476	2,079	1,025,798	811,439	659,295	6,599,733
Excess (deficiency) of revenues over expenses	418,143	1,326,393	618,177	39,748	1,839,934	(295,362)	(495,454)	3,451,579
Other financing sources and uses								
Transfers – external activities	-	-	-	-	-	-	-	-
Transfers – internal activities	(155,648)	(140,671)	(43,238)	(18,170)	(391,485)	-	-	(749,212)
Excess (deficiency) of revenues and sources over expenses and uses	262,495	1,185,722	574,939	21,578	1,448,449	(295,362)	(495,454)	2,702,367
Fund balances								
Beginning of year	5,998,868	6,293,037	6,306,591	1,382,699	18,305,775	129,695	9,196,337	47,613,002
End of year	$ 6,261,363	$ 7,478,759	$ 6,881,530	$ 1,404,277	$ 19,754,224	$ (165,667)	$ 8,700,883	$ 50,315,369

General Fund Expenses:

	Actual Expenses	Budgeted Expenses	Variance (Over) Under
Salaries and benefits (Note 1)	$ 486,311	$ 602,820	$ 116,509
Professional services	52,913	125,000	72,087
Administrative expenses	100,260	169,050	68,790
Office rent (Note 2)	102,573	95,000	(7,573)
Bank and trustee fees	3,149	-	(3,149)
Total expenses	$ 745,206	$ 991,870	$ 246,664

Note 1: Budgeted expenses for salaries and benefits included the full cost of staff that in some cases performs functions for other governmental entities for which the Authority receives appropriate reimbursement.

Note 2: Budgeted expenses for rent included the full cost of rental office space. The Authority provides space to other governmental entities for which the Authority receives reimbursement.

Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Indiana Development Finance Authority
State of Indiana

We have audited the financial statements of Indiana Development Finance Authority (Authority) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Indiana State Board of Accounts and the Indiana State Budget Agency, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Indianapolis, Indiana
August 5, 2005